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Reagan May Ask Japan to Restrict Machine-Tool Shipments to U.S.

President Said Weighing Use of Quotas Based on National Security

By Stuart Auerbach
Washington Post Staff Writer

President Reagan is considering asking Japan to voluntarily cut its sales of machine tools in the United States, threatening to set quotas otherwise under national-security provisions of U.S. trade laws that haven't been used before, administration officials said yesterday.

The import limits could last for as long as five years to preserve the ability of the import-battered domestic tool industry to produce machines needed to make weapons, the sources said.

"The decision is going to be made by President Reagan within the next couple of weeks," said one administration official, who has been pushing for action on a three-year-old petition by American machine-tool makers to win trade protection on national-security grounds.

Although several countries supply machine tools to the American market, any import restraints are likely to fall on Japan, which is the largest supplier of general-use machine tools to the United States.

European machine tools, which come largely from West Germany and Switzerland, are such specialized products that they do not compete directly with U.S. products. Japanese newspapers are speculating that the Ministry of International Trade and Industry is preparing for the restraints by seeking estimates from major machine-tool makers in that country of their export projections for this year.

U.S. machine-tool makers and their congressional allies have argued that foreign manufacturers produce about three-fourths of the state-of-the-art, computer-controlled lathes and machinery centers, necessary for manufacturing weapons ranging from missiles to rifles.

"The very foundation of our national security and economic well-being depend upon the skill and capacity of the machine-tool industry," 27 House Republicans, including Minority Leader Robert H. Michel (Ill.), said in a January letter to President Reagan. There is a "serious threat to the national security posed by our growing dependence on imports for high-technology defense-sensitive machinery," they added.

Commerce Secretary Malcolm Baldrige, who two years ago this week recommended that sharp limits be placed on imports of machine tools on national-security grounds, is pressing for the voluntary restraints on Japanese imports.

His original proposal, which never went to the full cabinet, was far stronger. It called for banning 90 percent of all imports, and effectively would have eliminated Japanese products from the United States.

That recommendation ran into sharp opposition from free-trade advocates within the administration, who sought to bury the issue by keeping it from a presidential decision.

"You had stalling because people thought it was a bad issue that could be stalled away," said an official who favors the import curbs.

The machine-tool industry's petition was brought forcefully to the attention of White House Chief of Staff Donald T. Reagan in December, when he was seeking support for tax overhaul from House Republicans.

They quickly reminded him of the buried recommendation to help U.S. machine-tool makers, and he promised to resurrect the issue.

Since then, it has moved toward the front burner of administration trade issues.

Secretary of State George P. Shultz met last week with three Republican House members—Nancy Johnson (Conn.), Henry Hyde (Ill.) and Lynn Martin (Ill.)—on the issue, and U.S. Trade Representative Clayton Yeutter publicly criticized the National Security Council for

delaying a resolution of the industry petition.

Under questioning by Rep. Barbara B. Kennelly (D-Conn.) at a House Ways and Means Committee hearing last month, Yeutter said, "True to form, the National Security Council has not yet given me a date [for a meeting on machine tools], and I cannot defend that at all."

"But I can be a little more optimistic than that because I really think we will do this within the next two to three weeks. I think we are finally nearing the conclusion of this process, which has been indefensibly procrastinated."

He was scheduled to meet last week with the president's national security adviser, Rear Adm. John M. Poindexter, but the meeting was postponed because of developments in the Philippines.

The idea of so-called voluntary restraints on the part of the Japanese is considered more palatable to the free-trade ideology of the Reagan administration than Baldrige's original recommendation of sharp limits on imports through quotas and tariffs.

Rep. Johnson said Defense Secretary Caspar Weinberger told her he opposed import limits, but appeared more sympathetic to voluntary restraints, even if they are agreed to under the threat of imposed quotas.

Noe-counters within the administration and on Capitol Hill are unsure what the NSC will recommend to the president. "It's still up in the air," said one administration official.

In the three years since the National Machine Tool Builders Association filed its petition for import restraints, sales of foreign machine tools have increased steadily, going from 26.4 percent of the U.S. market in 1982 to about 43 percent last year.

The value of Japanese imports tripled in the same period, jumping from \$535 million in 1982 to about \$1.5 billion last year.

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ON PAGE **A-1**WASHINGTON POST
11 March 1986

U.S. Dependence on Japan For Parts Worries Pentagon

By Michael Schrage
Washington Post Staff Writer

America's most sophisticated weapons are rapidly becoming dependent on components imported from Japan—a development that has touched off debate inside the Pentagon over what, if anything, should be done about it.

Defense industry sources are particularly concerned about the Strategic Defense Initiative—or “Star Wars”—system, where Japanese high-technology companies now outstrip U.S. defense contractors in several key technologies vital to the development of such a system.

While U.S. companies are able to do most of the SDI systems design work, the cheapest and most reliable hardware—ranging from lasers to new materials—is produced by the Japanese. For example, the Japanese have become the world's dominant supplier of computer memory chips—a key element in many electronics-based weapons systems.

“It's a matter of fact that the Japanese have taken the technical lead in many of these key technologies . . .,” said Hewlett-Packard Co.'s materials research laboratory director, Robert Burmeister, who serves on a National Academy of Science panel on electronic components.

“Japan today has the technology base to be a major supplier to the SDI,” said Richard Reynolds, director of the defense sciences office at the Defense Advanced Research Projects Agency, who added that the Pentagon now can buy advanced technology from Japan not yet available from U.S. suppliers.

“In some cases,” he said, “you either buy from Japan or you don't get it.”

This has raised serious policy concerns over whether the Pentagon should dramatically shore up this nation's high-tech manufacturing base—potentially a very expensive undertaking—or whether it simply should buy the best technology at the best price from a close ally.

Three high-level commissions are examining the military's growing reliance on overseas electronics: a newly formed Defense Sciences Board Task Force on Semiconductor Dependency; a panel of the Pentagon's joint logistics commanders; and a National Academy of Science Electronics Components Committee, which is expected to release a report next month asserting that “there is a very large and increasing dependence on Japanese components.”

“There's no doubt that—because of cost and quality considerations—many defense groups are already buying from Japan,” said Harvey Nathanson, a Westinghouse research director who leads an industry group pushing for increased defense funding for electronics materials research. “The question has got to be, is that good for us in the long term? A lot of the technologists are more concerned about the Japanese ascendancy. The ‘equipment at the best price’ procurement types aren't worried.”

Largely through its strength in commercial electronics, Japan has rapidly become a strategic supplier of defense technologies to the Pentagon. Pentagon expenditures for defense electronics approach \$56.5 billion a year, according to the Electronics Industries Association.

The Nakasone government in Japan has been encouraging the transfer of the country's advanced electronics to the U.S. military, and top Pentagon officials have welcomed increased participation by the Japanese.

“The change in the electronics has been the most striking and significant in the past few years,” said Jacques S. Gansler, a deputy assistant secretary of Defense for material acquisition during the Ford administration and now a defense industry consultant.

Currently, there are no good estimates on what percentage of defense electronics compon-

ents are produced overseas. However, House Armed Services subcommittee staff feels that roughly 80 percent of the military's silicon chips are manufactured in Asia.

Meaningful estimates of Japanese content of U.S. defense electronics are further complicated because U.S. contractors do not always have to disclose where the components for their electronics systems were originally made.

“There's no question that what the [Pentagon] needs to do is recognize the ‘dual economy’ that exists in the defense industry,” asserted Gansler, who serves on the National Academy of Science panel. “We have large prime contractors providing systems, and we don't pay attention to the lower tier [of contractors] on which these systems are dependent. So we have this awkward system where the lower tiers are disappearing and going offshore; their significance isn't recognized.”

“While we focus so much of our resources on the prime-contractor level, the real advances [in technology] often come from these parts and components.”

In addition to volume supply, Japanese companies recently have begun to provide “critical” components for such weapons systems as missiles and electronic-warfare devices, according to Pentagon and industry officials.

Exacerbating that situation is the fact that, in some areas, Japanese companies have become the sole providers of high-quality, low-cost key electronics materials after winning price wars with American companies.

After Monsanto Co. dropped out of the market three years ago, for example, the United States no longer has a domestic supplier of “float-zone” silicon—a special kind of silicon used in fabricating high-power electronic switching devices that would be indispensable for space-based weaponry. Japanese companies are the key U.S. defense suppliers.

Japan's dominance in the computer memory-chip market means that “we are captive of the Japanese in this commodity,” said former assistant Defense secretary Robert Cooper, “but that's no worse than saying our Navy is captive to the supply of foreign oil.”

Japanese companies also enjoy significant cost, quality and technical advantages in the production of gallium arsenide computer chips—chips

capable of processing data far faster than conventional silicon chips. The Defense Department has publicly identified gallium arsenide as a critical technology for the SDI. Japan provides the bulk of the Pentagon's gallium arsenide, according to defense electronics sources.

According to former Defense undersecretary of engineering Richard DeLauer, Japan also leads the United States in computer-chip packaging and fiber-optic technology.

Consequently, key U.S. electronics defense suppliers are pushing the Pentagon to invest more heavily in domestic suppliers and to reexamine procurement policies. They argue that the United States already is being hurt technologically by its dependence on Japanese high-technology materials.

"Even now, the Japanese are preselecting the quality of the silicon they ship," said Westinghouse's Nathanson, "In some Westinghouse plants, we're finding it difficult to get the [more advanced] silicon wafers [for power device production]. They themselves are now using higher-order material than they're willing to ship us."

However, Nathanson concedes, and several defense industry sources confirm, that prime U.S. defense contractors are becoming more reliant on Japanese companies to do the actual production work for systems components because of potentially superior manufacturing and price performance.

"This trend towards 'teaming up' with the Japanese is going to continue," asserts former Defense undersecretary William J. Perry.

That poses potentially awkward procurement situations for the SDI because leading advocates such as Assistant Secretary of Defense Richard N. Perle and SDI program director Gen. James Abrahamson have assured that the program will seek low-cost suppliers.

"We're trying to get the best technology at the lowest cost," said Perle, who added that he expects Japan to participate in the SDI.

However, most technology experts agree that, if the Pentagon is serious about obtaining the best high technologies at the most reasonable cost, most of the component production will be done offshore by Japanese high-technology concerns—unless there are specific policies designed to minimize foreign involvement.

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